

GRAYLING HOUSING COMMISSION  
GRAYLING, MICHIGAN

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2007  
AND  
REPORTS ON INTERNAL CONTROL AND  
COMPLIANCE

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Grayling Housing Commission	County Crawford
Fiscal Year End March 31, 2007	Opinion Date November 2, 2007	Date Audit Report Submitted to State November 3, 2007	

We affirm that:

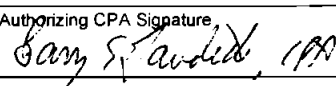
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☒ ☐ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Report on Compliance and Internal Control	
Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC		Telephone Number (231) 946-8930	
Street Address 731 S. Garfield Avenue		City Traverse City	State MI
		Zip 49686	
Authorizing CPA Signature 	Printed Name Barry E. Gaudette, CPA		License Number 11050

GRAYLING HOUSING COMMISSION  
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## INTRODUCTION

***Independent Auditor's Report***

Board of Commissioners  
Grayling Housing Commission  
Grayling, Michigan

I have audited the accompanying financial statements of the business-type activities of Grayling Housing Commission, Michigan, a component unit of the City of Grayling, as of and for the year ended March 31, 2007, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Grayling Housing Commission, Michigan, as of March 31, 2007, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Grayling Housing Commission  
Independent Auditor's Report  
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated November 2, 2007, on my consideration of Grayling Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 10, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise Grayling Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Grayling Housing Commission, Michigan. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Barry E. Sandt, CPA, PC*

November 2, 2007

**Grayling Housing Commission**  
**Management's Discussion and Analysis (MD&A)**  
**March 31, 2007**  
**(Unaudited)**

As management of the Grayling Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the Grayling Housing Commission's financial activities for the fiscal year ended March 31, 2007. This discussion and analysis letter of the Grayling Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

The combined financial statements reflect all of the Commission's federally funded programs and activities in one place. The Commission reports all its activities and programs using the Enterprise Fund type model. HUD encourages PHAs to use this accounting method as it is normally used to account for "business-type activities" - activities similar to those found in the private sector. Enterprise Fund types use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenditures may be reported as such even though no cash transaction has actually taken place.

**FINANCIAL HIGHLIGHTS**

The term "net assets" refers to the difference between assets and liabilities. The Commission's total net assets as of March 31, 2007 were \$1,297,412. The net assets decreased by \$71,200, an decrease of 5.20% from the prior year.

Revenues and contributions for the Commission were \$955,991 for the fiscal year ended March 31, 2007. This was an decrease of \$131,440 or 12.1% from the prior year.

Expenses for the Commission were \$1,027,185 for the fiscal year ended March 31, 2007. This was a decrease of \$33,785 or 3.2% from the prior year.

HUD operating grants were \$572,291 for the fiscal year ended March 31, 2007. This was an increase of \$5,313 or .9% over the prior year. Capital contributions were \$102,116 for the fiscal year ended March 31, 2007. This was an decrease of \$137,118 or 57.3% from the prior year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report contains this *Management & Discussion Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. The Commission's financial statements are presented

Grayling Housing Commission  
Management's Discussion and Analysis (MD&A)  
(Continued)  
March 31, 2007

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

as fund financial statements because the Commission only has proprietary funds.

Required Financial Statements

The *Statement of Net Assets* includes the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission creditors (liabilities). It also provides the basis for evaluating the liquidity and financial flexibility of the Commission.

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Assets*. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the *Statement of Cash Flows*. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established Uniform Financial Reporting Standards that require Housing Commissions to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) and is required to be included in the audit reporting package.



**Grayling Housing Commission  
Management's Discussion and Analysis (MD&A)  
(Continued)  
March 31, 2007**

**FUND STATEMENTS**

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Enterprise fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

**Grayling Housing Commission Programs:**

Low Rent Public Housing: Under this program, the Housing Commission rents units that it owns to low-income elderly and family households. This program is operated under an Annual Contributions Contract with HUD. HUD provides Operating Subsidies to enable the Housing Commission to lease these units at a rate that is based on 30% of the household income.

Capital Fund Program: Under this program, the Housing Commission is awarded funds each year to use for Capital Needs. The Housing Commission also has the ability to use up to 20% of these funds, if need be, to supplement Operating Subsidies. This program is the primary funding source for physical improvements to its properties.

Section 8 Housing Choice Voucher Program: Under this program, the Housing Commission administers contracts with independent landlords to provide housing for low-income households. These units are not owned by the Housing Commission. The Housing Commission subsidizes the family's rent via a "Housing Assistance Payment" made directly to the landlord. HUD provides subsidy to the Housing Commission to enable the Housing Commission to set the rental rates at 30% of a participant's income.

**FINANCIAL ANALYSIS**

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the following table, assets exceeded liabilities by \$1,297,412 at the close of the fiscal year ended March 31, 2007 an decrease from \$1,368,612 in 2006. The decrease in net assets of \$71,200 was due to the change in net assets for the fiscal year and a prior period adjustment.

The unrestricted net assets were \$30,890 as of March 31, 2007. This amount may be used to meet the Commission's ongoing obligations. The Commission had no net assets classified as restricted that are subject to external restrictions on how they may be used. At the end of the current fiscal year, the Commission

Grayling Housing Commission  
Management's Discussion and Analysis (MD&A)  
(Continued)  
March 31, 2007

**FINANCIAL ANALYSIS (CONTINUED)**

is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

**CONDENSED STATEMENTS OF NET ASSETS  
MARCH 31,**

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Per Cent Change</u>
Current and other assets	\$ 177,532	\$ 170,397	\$ 7,135	4.19%
Capital assets	<u>1,266,522</u>	<u>1,360,397</u>	<u>( 93,875)</u>	<u>( 6.90)%</u>
Total Assets	<u>1,444,054</u>	<u>1,530,794</u>	<u>( 86,740)</u>	<u>( 5.67)%</u>
Current liabilities	91,139	89,577	1,562	1.74%
Noncurrent liabilities	<u>55,503</u>	<u>72,605</u>	<u>( 17,102)</u>	<u>(23.55)%</u>
Total Liabilities	<u>146,642</u>	<u>162,182</u>	<u>( 15,540)</u>	<u>( 9.58)%</u>
Net Assets:				
Invested in capital assets	1,266,522	1,360,397	( 93,875)	( 6.90)%
Unrestricted	<u>30,890</u>	<u>8,215</u>	<u>22,675</u>	<u>276.02%</u>
Total Net Assets	<u>\$1,297,412</u>	<u>\$1,368,612</u>	<u>\$ ( 71,200)</u>	<u>( 5.20)%</u>

Total current assets increase of \$7,135 was due to various small increases in cash, tenant rent receivables, and prepaid expenses, of which the largest was \$2,681 in tenant receivables.

Current liabilities increased slightly due to accrued wage/payroll taxes payable of \$25,920 being set up this fiscal year, whereas there wasn't a liability set up in the prior year. Accounts payable decreased \$17,718 and deferred revenues decreased by \$2,437 from the prior year. Long-term compensated absences decreased by \$17,102 from the prior year, because of two employees sick leave being used.

The largest portion of the Commission's net assets reflects its investment in capital assets (e.g. land, buildings and equipment) less accumulated depreciation. The Commission uses these capital assets to provide service and consequently these assets are not available to liquidate liabilities or other spending.

While the Statement of Net Assets shows the change in financial position of net assets, the Statements of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source

**Grayling Housing Commission  
Management's Discussion and Analysis (MD&A)  
(Continued)  
March 31, 2007**

**FINANCIAL ANALYSIS (CONTINUED)**

of these changes.

As can be seen in the following table total revenues and contributions decreased by \$131,440, in large part, due to a decrease in capital contributions of \$137,118. Other income decreased by \$20,792, in part, because of nondwelling rents decreasing by \$4,000 from the fiscal year ending March 31, 2006 to March 31, 2007.

**CONDENSED STATEMENTS OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS  
MARCH 31,**

	<u>2007</u>	<u>2006</u>	<u>Dollar Change</u>	<u>Per Cent Change</u>
<b>Revenues and contributions</b>				
Operating, nonoperating, capital contributions:				
Tenant Revenue	\$ 250,511	\$ 229,004	\$ 21,507	9.4%
Nondwelling rent	595	186	409	219.9%
Total PHA generated Revenue	251,106	229,190	21,916	9.6%
HUD operating grants	572,291	566,978	5,313	.9%
Capital contributions	102,116	239,234	(137,118)	(57.3)%
Other income	28,566	49,358	( 20,792)	(42.1)%
Interest income	1,912	2,671	( 759)	(28.4)%
<b>Total Revenues and Contributions</b>	<u>955,991</u>	<u>1,087,431</u>	<u>(131,440)</u>	<u>(12.1)%</u>
<b>Expenses</b>				
Personal services	337,462	311,923	25,539	8.2%
Utilities	109,919	98,466	11,453	11.6%
Operations and maintenance	47,115	75,215	( 28,100)	(37.4)%
Insurance	25,797	42,563	( 16,766)	(39.4)%
Payments in lieu of taxes	16,450	13,855	2,595	18.7%
Other supplies and expenses	35,370	64,849	( 29,479)	(45.5)%
Housing Assistance Payments	361,201	375,336	( 14,135)	( 1.0)%
Depreciation	93,871	78,763	15,108	19.2%
<b>Total Expenses</b>	<u>1,027,185</u>	<u>1,060,970</u>	<u>( 33,785)</u>	<u>( 3.2)%</u>
Change in net assets	( 71,194)	26,461	( 97,655)	
Prior period adjustments	( 6)	( 4,097)	4,091	
Beginning net assets	<u>1,368,612</u>	<u>1,346,248</u>	<u>22,364</u>	
Ending net assets	<u>\$1,297,412</u>	<u>\$1,368,612</u>	<u>\$ (71,200)</u>	

**Grayling Housing Commission  
Management's Discussion and Analysis (MD&A)  
(Continued)  
March 31, 2007**

**FINANCIAL ANALYSIS (CONTINUED)**

*Revenues:*

Grayling Housing Commission's primary revenue sources are subsidies and grants received by HUD. Please note that Capital Fund Program grants are classified as either soft cost revenue or hard cost revenue. Revenue received from HUD for fiscal year ended March 31, 2007 for Public Housing and for Section 8 increased from fiscal year ending March 31, 2006 to March 31, 2007 by \$18,516. For fiscal year ending March 31, 2007, revenue generated by the Commission accounted for \$251,106 (or 26% of total revenue), while HUD contributions accounted for \$674,407 (or 71% of total revenue).

*Expenses:*

Total Expenses for the fiscal ending March 31, 2006 were \$1,060,970 while for the fiscal year ending March 31, 2007 was \$1,027,185. This represents a 3.2% decrease in our Operating Costs. The expenses were reduced, in part, because contract costs for maintenance was reduced by \$25,072, legal expenses by \$864, travel costs by \$3,700, telephone costs by \$2,240, and office supplies by \$6,115.

The following represents changes in Federal Assistance received:

	<u>03/31/07</u>	<u>03/31/06</u>	<u>Dollar</u> <u>Change</u>	<u>Per Cent</u> <u>Change</u>
Public Housing Operating Subsidy	\$ 106,497	\$121,473	\$ ( 14,976)	(12.3)%
Capital Fund Program Grants	102,116	239,234	(137,118)	(57.3)%
Sec. 8 Voucher	465,794	432,302	33,492	7.74%
Other HUD grants		13,203	( 13,203)	(100.00)%
Total	<u>\$ 674,407</u>	<u>\$806,212</u>	<u>\$ (131,805)</u>	<u>( 16.35)%</u>

The above chart is segregated as to the Program source of funds, not the use of funds. The subsidy for Section 8 increased due to HUD's catch up payments for prior years underpayments of voucher monies. The subsidy for Public Housing decreased mainly due to tenant rents increasing. The decrease in the Capital Fund Program was due to the fact that work projects during the fiscal year ending March 31, 2007 was for one CFP year funding and not two or more years as in the prior year, thus utilizing less of our Capital Fund Program funding in the fiscal year ending March 31, 2007 than in the fiscal year ending March 31, 2006.

**Grayling Housing Commission  
Management's Discussion and Analysis (MD&A)  
(Continued)  
March 31, 2007**

**FINANCIAL ANALYSIS (CONTINUED)**

*Budget Analysis:*

A Low Rent Public Housing Operating Budget for the fiscal year ending March 31, 2007 was presented to and approved by the Board of Commissioners. We had no reason to amend the budget during the fiscal year. Actual results were in line with budgeted amounts.

**OPERATIONAL HIGHLIGHTS**

The Grayling Housing Commission provided the following housing for low-income elderly and low-income families:

	<u>March 31, 2007</u>	<u>March 31, 2006</u>
Low Rent Public Housing	88	88
Sec. 8 Housing Choice Voucher	130	130

During the fiscal year ending March 31, 2007, Grayling Housing Commission maintained a lease-up rate of 98.2% in its Public Housing Program and a lease-up rate of 95.1% in its Section 8 program. These lease-up rates are in excess of HUD guidelines.

During the fiscal year ending March 31, 2007, our Capital Fund Program work projects included:

A computer was purchased for \$829, alarm system for \$1,896, replaced air compressor and winterize the lawn system for \$1,051, and roof improvements for \$2,495. None of these purchases were capitalized.

For the fiscal year ending March 31, 2008, we will be continue installing kitchen cabinets for between 15 and 20 units.

**CAPITAL ASSETS**

**Capital Assets** - The Grayling Housing Commission's investment in capital assets, as of March 31, 2007 amounts to \$1,266,522 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and equipment.

Grayling Housing Commission  
Management's Discussion and Analysis (MD&A)  
(Continued)  
March 31, 2007

**CAPITAL ASSETS (CONTINUED)**

CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION MARCH 31,			
	2007	2006	Dollar Change
Land	\$ 88,873	\$ 88,873	\$
Buildings	2,597,625	2,359,405	238,220
Furniture, equipment and machinery - dwellings	43,465	43,465	
Furniture, equipment and machinery - administration	140,679	140,679	
Construction in progress		238,224	( 238,224)
	2,870,642	2,870,646	( 4)
Accumulated depreciation	(1,604,120)	(1,510,249)	( 93,871)
Total	\$ 1,266,522	\$ 1,360,397	\$ ( 93,875)

Capital assets decreased by \$93,875, because a \$4 rounding correction for the prior year and depreciation of \$93,871.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The Housing Commission is primarily dependent upon HUD for the funding of operations as well as capital needs. Therefore, the Housing Commission is affected more by the Federal Budget than by local economic conditions. The funding of programs could be significantly affected by the Federal Budget.

Although the Housing Commission remains concerned about the future levels of HUD funding due to the state of the federal budget, we feel that we are both financially and operationally in a strong position to continue to provide safe, sanitary, and decent housing to our residents.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions or comments concerning any of the information contained in this report or request for additional information should be directed to:

Guy Quigley, Executive Director  
Grayling Housing Commission  
308 Lawndale Drive  
Grayling, MI 49738

## FINANCIAL STATEMENTS

GRAYLING HOUSING COMMISSION

STATEMENT OF NET ASSETS

March 31, 2007

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**ASSETS**

Current Assets:

Cash and cash equivalents	\$ 95,995
Receivables	9,708
Investments	51,719
Prepaid expenses	17,635
Inventories	<u>2,475</u>

Total Current Assets	<u>177,532</u>
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Capital Assets:

Land	88,873
Buildings	2,597,625
Equipment	<u>184,144</u>
	2,870,642
Less: accumulated depreciation	<u>( 1,604,120)</u>

Net Capital Assets	<u>1,266,522</u>
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Total Assets	<u>\$ 1,444,054</u>
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See notes to financial statements



GRAYLING HOUSING COMMISSION  
STATEMENT OF NET ASSETS (CONTINUED)  
March 31, 2007  
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**LIABILITIES and NET ASSETS**

Current Liabilities:	
Accounts payable	\$ 38,704
Tenant security deposit liability	17,196
Accrued expenses	32,087
Deferred revenues	1,099
Accrued liabilities-other	<u>2,053</u>
Total Current Liabilities	91,139
Noncurrent liabilities:	
Accrued compensated absences	<u>55,503</u>
Total Liabilities	<u>146,642</u>
Net Assets:	
Invested in capital assets	1,266,522
Unrestricted net assets	<u>30,890</u>
Total Net Assets	<u>1,297,412</u>
Total Liabilities and Net Assets	<u>\$ 1,444,054</u>

See notes to financial statements

GRAYLING HOUSING COMMISSION  
**STATEMENT OF REVENUES, EXPENSES, AND  
 CHANGES IN NET ASSETS**  
 Year Ended March 31, 2007  
 =====

**OPERATING REVENUES:**

Dwelling rent	\$ 250,511
Nondwelling rent	<u>595</u>
 Total operating revenues	 <u>251,106</u>

**OPERATING EXPENSES:**

Administration	307,816
Utilities	109,919
Ordinary maintenance and operation	112,131
General expenses	42,247
Housing assistance payments	361,201
Depreciation	<u>93,871</u>
 Total operating expenses	 <u>1,027,185</u>

Operating income(loss)	<u>( 776,079)</u>
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**NONOPERATING REVENUES:**

Investment interest income	1,912
Other income	28,566
Operating grants	<u>674,407</u>

Total nonoperating revenues	<u>704,885</u>
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Change in net assets	( 71,194)
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Prior period adjustments, equity transfers and correction of errors	( 6)
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Net assets, beginning	<u>1,368,612</u>
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Net assets, ending	<u><u>\$ 1,297,412</u></u>
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See notes to financial statements

GRAYLING HOUSING COMMISSION  
**STATEMENT OF CASH FLOWS**  
Year Ended March 31, 2007  
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**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from dwelling and nondwelling rents	\$ 245,988
Cash payments to other suppliers of goods and services	( 587,223)
Cash payments to employees for services	( 349,546)
Cash payments for in lieu of taxes	<u>( 13,855)</u>
Net cash (used) by operating activities	<u>( 704,636)</u>

**CASH FLOWS FROM NONCAPITAL**

**FINANCING ACTIVITIES:**

Tenant security deposits	1,498
FSS escrow deposits	2,053
Operating grants	674,407
Other revenue	<u>28,566</u>

Net cash provided by noncapital financing activities	<u>706,524</u>
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**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Capital grants	-
Payments for capital acquisitions	<u>( - )</u>

Net cash (used) by capital and related financing activities	<u>( - )</u>
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**CASH FLOWS FROM INVESTING ACTIVITIES:**

Investments increased by	( 1,026)
Receipts of interest and dividends	<u>1,912</u>

Net cash provided by investing activities	<u>886</u>
---	------------

Net increase(decrease) in cash	2,774
--------------------------------	-------

Cash and cash equivalents, beginning	<u>93,221</u>
--------------------------------------	---------------

Cash and cash equivalents, ending	<u>\$ 95,995</u>
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GRAYLING HOUSING COMMISSION  
STATEMENT OF CASH FLOWS (CONTINUED)  
Year Ended March 31, 2007  
=====

RECONCILIATION OPERATING INCOME (LOSS)  
TO NET CASH PROVIDED BY OPERATING  
ACTIVITIES:

Operating income (loss)	\$( 776,079)
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities:	
Depreciation	93,871
Prior period adjustment	( 2)
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	( 2,681)
Prepaid expenses	( 654)
Increase (decrease) in liabilities:	
Accounts payable	( 26,167)
Accrued wage/payroll taxes payable	25,920
Accrued compensated absences	( 19,002)
Accounts payable-PILOT	2,595
Deferred revenues	<u>( 2,437)</u>
Net cash (used) by operating activities	<u><u>\$( 704,636)</u></u>

See notes to financial statements

GRAYLING HOUSING COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
March 31, 2007  
=====

**NOTE 1: Summary of Significant Accounting Policies**

The Grayling Housing Commission (the Housing Commission) is a component unit of the City of Grayling, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Grayling on June 23, 1959, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide low-rent housing, under the low rent program Annual Contributions Contract for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other Federal agencies.

The Housing Commission complies with U.S. generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Housing Commission the option of electing to apply FASB pronouncements issued after November 30, 1989, except for those that conflict with or contradict a GASB pronouncement. The Housing Commission has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

**1(a) Financial Reporting Entity**

The Housing Commission's financial reporting entity comprises the following:

Primary Government:	Housing Commission
---------------------	--------------------

In determining the financial reporting entity, the Housing Commission complies with the provisions of GASB Statement No. 14 as amended by GASB No. 39, "The Financial Reporting Entity", and includes all component units, if any, of which the Housing Commission appointed a voting majority of the units' board; the Housing Commission is either able to impose its will on the unit or a financial benefit or burden relationship exists. There are no agencies, organizations or activities meeting this criteria.

## **1(b) Basis of Presentation**

Financial statements of the reporting entity's programs are organized and reported as an enterprise fund and are accounted for by providing a set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Enterprise funds are used to account for business-like activities provided to its tenants. These activities are financed primarily by user charges and/or Federal funding and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes all of the Housing Commission's programs as an enterprise fund.

Following is a description of the Housing Commission's programs:

<b>Program</b>	<b>Brief Description</b>
Low Rent	Accounts for activities of the Public and Indian Housing program which HUD provides an annual subsidy to help public housing agencies (PHAs) pay some of the cost of operating and maintaining public housing units.
Housing Choice Vouchers	Accounts for activities of the Voucher program which assists very low income families, the elderly, and the disabled to afford decent, safe and sanitary housing in the private market.
Capital Fund Program	Accounts for activities of the Capital Fund which provides funds to housing authorities to modernize public housing developments.

## **1(c) Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

### **Measurement Focus**

In the financial statements, the "economic resources" measurement focus is used as follows:

The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current

or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

### **Basis of Accounting**

In the financial statements, the proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

### **1(d) Assets, Liabilities, and Equity**

#### **Cash and Investments**

For the purpose of the Statement of Net Assets, "cash and cash equivalents" includes all demand, savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less. For the purpose of the Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value except for short-term U.S. Treasury obligations, if any, with a remaining maturity at the time of purchase of one year or less. Those investments, if any, are reported at amortized cost. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Note 2(b) and 3(a).

#### **Interprogram Receivables and Payables**

During the course of operations, numerous transactions occur within individual programs that may result in amounts owed between these programs. Offsetting interprograms are eliminated for financial statement presentation.

#### **Receivables**

Receivables consist of all revenues earned at year-end and not yet received. Tenant accounts receivable, accrued interest receivable and accounts receivable from U.S. Department of Housing and Urban Development compose the majority of receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

#### **Inventories**

Inventories are valued at average cost, and consist of expendable supplies held for consumption. The cost of inventories are recorded as expenditures when consumed, rather than when purchased.

## **Insurance**

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

## **Budgets and Budgetary Accounting**

The Housing Commission adopts a formal operating budget each year for its operating programs and on a project length basis for its capital expenditures which are approved by the Board of Commissioners and submitted to the Department of Housing and Urban Development for their approval, if required.

## **Estimates and Assumptions**

The Housing Commission uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses.

## **Capital Assets**

The accounting treatment over property, plant, and equipment (capital assets) is as follows:

In the financial statements, capital assets purchased or acquired with an original cost of \$25 or more are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets are recorded as an allocated expense depending on the program where the asset is shown, in the Statement of Revenues, Expenses and Changes in Net Assets, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Site improvements	10 -15 years
Buildings & improvements	15 -40 years
Equipment - dwellings	5 - 7 years
Maintenance equipment	5 - 7 years
Office equipment	3 - 7 years

## **Compensated Absences**

The Housing Commission's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as short-term and long-term liabilities based on historical trends. In



accordance with the provisions of GASB Statement No. 16, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

### **Equity Classifications**

Equity is classified as net assets and displayed in two components:

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. The Housing Commission had no related debt.
- b. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

### **1(e) Revenues, Expenditures, and Expenses**

#### **Operating Revenues and Expenses**

Operating revenues and expenses are those that result from providing services and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Non-operating revenues and expenses are those that are not operating in nature.

#### **Interfund Transfers**

For the purposes of the Statement of Revenues, Expenses, and Changes in Net Assets, all interfund transfers between individual programs, if any, have been eliminated.

#### **Post Employment Benefits**

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

#### **Income Taxes**

As a component unit of a Michigan City, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

### **NOTE 2: Stewardship, Compliance, and Accountability**

The Housing Commission and its component units, if any, are subject

to various federal, state, and local laws and contractual regulations. An analysis of the Housing Commission's compliance with significant laws and regulations and demonstration of its stewardship over Housing Commission resources follows.

## **2(a) Program Accounting Requirements**

The Housing Commission complies with all state and local laws and regulations requiring the use of separate programs. The programs used by the Housing Commission are as follows:

<b>Program</b>	<b>Required By</b>
Public and Indian Housing	U.S. Department of HUD
Housing Choice Vouchers	U.S. Department of HUD
Capital Fund Program	U.S. Department of HUD

## **2(b) Deposits and Investments Laws and Regulations**

In accordance with state law, all uninsured deposits of the Housing Commission in financial institutions must be secured with acceptable collateral valued at the lower of market or par. All financial institutions pledging collateral to the Housing Commission must have a written Depository Agreement. As reflected in Note 3(a), all deposits were fully insured or collateralized.

Investments of the Housing Commission are limited by state law to the following:

- a. Direct obligations of the U.S. Government or its agencies or instrumentalities to which acceptable collateral is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral.

## **2(c) Revenue Restrictions**

The Housing Commission has various restrictions placed over certain revenue sources. The primary restricted revenue sources include:

<i>Revenue Source</i>	<i>Legal Restrictions of Use</i>
Capital Fund Program	Modernization

For the year ended March 31, 2007, the Housing Commission complied, in all material respects, with these revenue restrictions.

## **NOTE 3: Detail Notes on Transactions Classes/Accounts**

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

### 3(a) Cash and Investments

#### Deposits

The Housing Commission's policies regarding deposits of cash are discussed in Note 1(d). The table presented below is designed to disclose the level of custody credit risk assumed by the Housing Commission based upon how its deposits were insured or secured with collateral at March 31, 2007. The categories of credit risk are defined as follows:

Category 1 - Insured by FDIC or collateralized with securities held by the Housing Commission (or public trust) or by its agent in its name.

Category 2 - Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Housing Commission's name.

Category 3 - Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Housing Commission's name; or collateralized with no written or approved collateral agreement.

	Total Bank Balance	Custody Credit Risk			Total Carrying Value
		Category 1	Category 2	Category 3	
Demand deposits	\$ 95,857	\$ 95,857	\$	\$	\$ 94,699
Savings	421	421			421
Certificate of deposit	650	650			650
	<u>\$ 96,928</u>	<u>\$ 96,928</u>	<u>\$</u>	<u>\$</u>	<u>\$ 95,770</u>

#### Investments

The Housing Commission's policies and applicable laws regarding investments are discussed in Note 1(d) and 2(b). The table presented below is designed to disclose the level of market risk and custody credit risk assumed by the Housing Commission (or public trust) based upon whether the investments are insured or registered and upon who holds the security at March 31, 2007. The categories of credit risk are defined as follows:

Category 1 - Insured or registered with securities held by the Housing Commission or its agent in the Housing Commission's name.

Category 2 - Uninsured and unregistered with securities held by counterparty's trust department or agent in the Housing

Commission's name.

Category 3 - Uninsured and unregistered with securities held by the counterparty or by its trust department or agent but not in the Housing Commission's name.

	<u>Custody Credit Risk</u>			<u>Carrying Amount</u>	<u>Fair Value</u>
	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>		
Certificates of deposits	\$ 51,719	\$	\$	\$ 51,719	\$ 51,719

A reconciliation of cash as shown on the combined statement of net assets is as follows:

Cash on hand	\$ 225
Carrying amount of deposits	95,770
Investments	51,719
Total	<u>\$ 147,714</u>
Cash and investments:	
Enterprise activities	\$ 148,945
Enterprise activities - checks written in excess of deposits	( 1,231)
Total	<u>\$ 147,714</u>

### 3(b) Accounts Receivable

Receivables detail at March 31, 2007, is as follows:

Tenant accounts receivable	<u>\$ 9,708</u>
----------------------------	-----------------

### 3(c) Capital Assets

Capital asset activity for the year ended March 31, 2007, was as follows:

	<u>Balance 03/31/06</u>	<u>Additions/ Transfers</u>	<u>Retirements/ Transfers</u>	<u>Balance 03/31/07</u>
<b>Low Rent Program</b>				
Land	\$ 88,873	\$	\$	\$ 88,873
Buildings	2,359,405	238,220		2,597,625
Furniture, equip. & machinery - dwellings	43,465			43,465
Furniture, equip. & machinery - administration	118,001			118,001
	<u>2,609,744</u>	<u>\$ 238,220</u>	<u>\$</u>	<u>2,847,964</u>
Less accumulated depreciation	<u>(1,487,571)</u>	<u>\$ ( 93,871)</u>	<u>\$</u>	<u>(1,581,442)</u>
Total	<u>\$1,122,173</u>			<u>\$1,266,522</u>

	<u>Balance</u> <u>03/31/06</u>	<u>Additions/</u> <u>Transfers</u>	<u>Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>03/31/07</u>
<b>Capital Fund Program</b>				
Construction in progress	\$ 238,224	\$ _____	\$ 238,224	\$ _____
<b>Housing Choice Voucher Program</b>				
Furniture, equip. & machinery - administration	\$ 22,678	\$ _____	\$ _____	\$ 22,678
Less accumulated depreciation	( 22,678)	\$ _____	\$ _____	( 22,678)
Total	\$ _____			\$ _____
<b>Combined Totals</b>				<u>\$1,266,522</u>

### 3(d) Accounts Payable

Payable detail at March 31, 2007, is as follows:

Accounts payable - vendors	\$ 22,254
Accounts payable - other government-PILOT	16,450
	<u>\$ 38,704</u>

### 3(e) Accrued Expenses

Accrued expense detail at March 31, 2007, is as follows:

Accrued wage/payroll taxes payable	\$ 25,920
Accrued compensated absences-current portion	6,167
	<u>\$ 32,087</u>

### 3(f) Accrued Liabilities-Other

Accrued liabilities-other at March 31, 2007, is as follows:

Accrued FSS escrows	<u>\$ 2,053</u>
---------------------	-----------------

### 3(g) Non-current Liabilities

As of March 31, 2007, the non-current liabilities are comprised of the following:

Accrued compensated absences - noncurrent portion	<u>\$ 55,503</u>
---	------------------

### 3(h) Interprogram Transactions and Balances

#### Operating Transfers

There was an operating transfer of \$102,116 from the capital fund program to the low rent program during the fiscal year ended March 31, 2007.

## Interprogram Receivable/Payable

Housing Choice Vouchers	\$ 2,258
Low Rent Program	( 2,258)
	<u>\$</u>

### NOTE 4: Other Notes

#### 4(a) Employee Retirement Plan

Each employee is covered under a defined benefit plan with the Michigan Municipal Employees Retirement System (MERS) that provides for annual employer contributions with complete vesting after 10 years of service and normal retirement age at 60 years of age. At December 31, 2006, the date of the last completed actuarial evaluation, the Housing Commission's present value of accrued benefits for retirement benefits was \$283,998. The valuation of assets to meet this obligation was \$497,276, therefore the overfunded amount is \$213,278. The Housing Commission computed employer contributions as a percentage of payroll of 7.17%. The Housing Commission's estimated monthly dollar contribution is \$1,046. The annual payroll is \$175,114 with four(4) active members, no vested former members, and no retirees and beneficiaries.

#### 4(b) Risk Management

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees health and life; and natural disasters. The Housing Commission manages these various risks of loss as follows:

Type of Loss	Method Managed
a. Torts, errors and omissions	Purchased insurance from Municipal Underwriters.
b. Injuries to employees (workers' compensation)	Included in the City of Grayling plan.
c. Physical property loss and natural disasters	Purchased commercial insurance from Municipal Underwriters.
d. Health, life, optical, and dental	Included in the City of Grayling's insurance plans.

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Housing Commission. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

#### 4(c) Commitments and Contingencies

##### Commitments - Construction

At March 31, 2007, the Housing Commission had the following pending construction projects in progress:

	<u>Funds Approved</u>	<u>Funds Expended - Project to Date</u>
2007 CFP	\$ <u>107,000</u>	\$ <u>-</u>

##### Contingencies

The Housing Commission is subject to possible examination by Federal and State authorities who determine compliance with terms, conditions, laws and regulations governing other grants given to the Housing Commission in the current and prior years. No significant violations of finance-related legal or contractual provisions occurred.

#### 4(d) Prior Period Adjustments, Equity Transfers and Correction of Errors

##### Low Rent Program

Rounding adjustment	\$ ( 2 )
Equity transfer	<u>238,220</u>
	<u>\$ 238,218</u>

##### Capital Fund Program

Rounding adjustment	\$ ( 4 )
Equity transfer	<u>(238,220)</u>
	<u>\$ (238,224)</u>

## SUPPLEMENTARY INFORMATION



GRAYLING HOUSING COMMISSION  
**COMBINING STATEMENT OF NET ASSETS**  
**BY PROGRAM**  
March 31, 2007

=====

C-3008	Capital
Low Rent	Fund
Program	Program
<u>14.850a</u>	<u>14.872</u>

**ASSETS**

Current assets:		
Cash and cash equivalents	\$ 17,196	\$
Accounts receivable-tenants	9,708	
Investments-unrestricted	51,719	
Prepaid expenses	17,635	
Inventories	2,475	
Due from other programs		
	<u>98,733</u>	
Total current assets		
Capital assets:		
Land	88,873	
Buildings	2,597,625	
Equipment	<u>161,466</u>	
	2,847,964	
Less accumulated depreciation	<u>( 1,581,442)</u>	
Net capital assets	<u>1,266,522</u>	
Total Assets	<u>\$ 1,365,255</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$ 78,799	\$ 95,995
	9,708
	51,719
	17,635
	2,475
<u>2,258</u>	<u>2,258</u>
<u>81,057</u>	<u>179,790</u>
	88,873
	2,597,625
<u>22,678</u>	<u>184,144</u>
22,678	2,870,642
( 22,678)	( 1,604,120)
<u>          </u>	<u>1,266,522</u>
<u>\$ 81,057</u>	<u>\$ 1,446,312</u>

GRAYLING HOUSING COMMISSION  
**COMBINING STATEMENT OF NET ASSETS**  
**BY PROGRAM (CONTINUED)**  
 March 31, 2007

=====

C-3008	Capital
Low Rent	Fund
Program	Program
<u>14.850a</u>	<u>14.872</u>

**LIABILITIES and NET ASSETS**

Current liabilities:

Accounts payable	\$ 38,704	\$
Tenant security deposit liability	17,196	
Accrued expenses	32,087	
Deferred revenues	1,099	
Accrued liabilities-other		
Due to other programs	<u>2,258</u>	<u></u>
Total current liabilities	91,344	

Noncurrent liabilities:

Accrued compensated absences	<u>55,503</u>	<u></u>
Total liabilities	<u>146,847</u>	<u></u>

Net Assets:

Invested in capital assets	1,266,522	
Unrestricted net assets	<u>( 48,114)</u>	<u></u>
Total net assets	<u>1,218,408</u>	<u></u>
Total Liabilities and Net Assets	<u>\$1,365,255</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$
	38,704
	17,196
	32,087
	1,099
2,053	2,053
<u>          </u>	<u>2,258</u>
2,053	93,397
<u>          </u>	<u>55,503</u>
<u>2,053</u>	<u>148,900</u>
	1,266,522
<u>79,004</u>	<u>30,890</u>
<u>79,004</u>	<u>1,297,412</u>
<u>\$ 81,057</u>	<u>\$ 1,446,312</u>

GRAYLING HOUSING COMMISSION  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND  
 CHANGES IN NET ASSETS BY PROGRAM**  
 Year Ended March 31, 2007  
 =====

	C-3008 Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
<b>OPERATING REVENUES:</b>		
Dwelling rent	\$ 250,511	\$
Nondwelling rent	<u>595</u>	<u></u>
Total operating revenues	<u>251,106</u>	<u></u>
<b>OPERATING EXPENSES:</b>		
Administration	209,600	
Utilities	109,919	
Ordinary maintenance and operation	112,131	
General expenses	42,247	
Housing assistance payments		
Depreciation	<u>93,871</u>	<u></u>
Total operating expenses	<u>567,768</u>	<u></u>
Operating income(loss)	<u>( 316,662)</u>	<u></u>
<b>NONOPERATING REVENUES:</b>		
Operating transfers in(out)	102,116	(102,116)
Investment interest income	1,912	
Other income	28,566	
Operating grants	<u>106,497</u>	<u>102,116</u>
Total nonoperating revenues	<u>239,091</u>	<u></u>
Change in net assets	( 77,571)	
Prior period adjustments, equity transfers and correction of errors	238,218	(238,224)
Net assets, beginning	<u>1,057,761</u>	<u>238,224</u>
Net assets, ending	<u>\$1,218,408</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$ 250,511
	595
	<u>251,106</u>
98,216	307,816
	109,919
	112,131
	42,247
361,201	361,201
	<u>93,871</u>
<u>459,417</u>	<u>1,027,185</u>
( 459,417)	( 776,079)
	1,912
	28,566
<u>465,794</u>	<u>674,407</u>
<u>465,794</u>	<u>704,885</u>
6,377	( 71,194)
	( 6)
<u>72,627</u>	<u>1,368,612</u>
<u>\$ 79,004</u>	<u>\$ 1,297,412</u>

GRAYLING HOUSING COMMISSION  
COMBINING STATEMENT OF CASH FLOWS  
BY PROGRAM

Year Ended March 31, 2007

=====

	C-3008 Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from dwelling and nondwelling rents	\$ 245,988	\$
Cash payments to other suppliers of goods and services	( 210,560)	
Cash payments to employees for services	( 258,343)	
Cash payments for in lieu of taxes	<u>( 13,855)</u>	
Net cash (used) by operating activities	<u>( 236,770)</u>	
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Operating transfers in(out)	102,116	( 102,116)
Tenant security deposits	1,498	
FSS escrow deposits		
Operating grants	106,497	102,116
Other revenue	<u>28,566</u>	
Net cash provided by noncapital financing activities	<u>238,677</u>	
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Payments for capital acquisitions		
Net cash (used) by capital and related financing activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investments increased by	( 1,026)	
Receipts of interest and dividends	<u>1,912</u>	
Net cash provided by investing activities	<u>886</u>	
Net increase(decrease) in cash	2,793	
Cash and cash equivalents, beginning	<u>14,403</u>	
Cash and cash equivalents, ending	<u><u>\$ 17,196</u></u>	<u><u>\$</u></u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$ 245,988
( 376,663)	( 587,223)
( 91,203)	( 349,546)
<u>          </u>	<u>( 13,855)</u>
 ( 467,866)	 ( 704,636)
	1,498
2,053	2,053
465,794	674,407
<u>          </u>	<u>28,566</u>
 467,847	 706,524
<u>          </u>	<u>          </u>
<u>          </u>	<u>          </u>
	( 1,026)
<u>          </u>	<u>1,912</u>
<u>          </u>	<u>886</u>
( 19)	2,774
<u>78,818</u>	<u>93,221</u>
<u>\$ 78,799</u>	<u>\$ 95,995</u>



GRAYLING HOUSING COMMISSION  
**COMBINING STATEMENT OF CASH FLOWS**  
**BY PROGRAM (CONTINUED)**  
Year Ended March 31, 2007  
=====

C-3008	Capital
Low Rent	Fund
Program	Program
<u>14.850a</u>	<u>14.872</u>

**RECONCILIATION OF OPERATING INCOME  
(LOSS) TO NET CASH PROVIDED BY  
OPERATING ACTIVITIES:**

Operating income(loss)	\$ ( 316,662)	\$
Adjustments to reconcile operating (loss) to net cash provided(used) by operating activities:		
Depreciation	93,871	
Prior period adjustments	( 2)	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	( 2,681)	
Prepaid expenses	( 654)	
Increase (decrease) in liabilities:		
Accounts payable	( 17,718)	
Accrued wage/payroll taxes payable	25,920	
Accrued compensated absences	( 19,002)	
Accounts payable-PILOT	2,595	
Deferred revenues	( 2,437)	
Net cash (used) by operating activities	<u>\$ ( 236,770)</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$ ( 459,417)	\$ ( 776,079)
	93,871
	( 2)
	( 2,681)
	( 654)
( 8,449)	( 26,167)
	25,920
	( 19,002)
	2,595
<u>                    </u>	<u>( 2,437)</u>
<u>\$ ( 467,866)</u>	<u>\$ ( 704,636)</u>

GRAYLING HOUSING COMMISSION  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS**  
Year Ended March 31, 2007

=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2007	Low Rent Public Housing	14.850a	\$ 106,497
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2007	Capital Fund Program	14.872	102,116
	<u>Low Income Public Housing Major - Direct Program</u>		
2007	Housing Choice Vouchers	14.871	<u>465,794</u>
	Total		<u>\$ 674,407</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

**NOTE 1: Significant Accounting Policies**

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

## GRAYLING HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE**

Year Ended March 31, 2007

=====

FDS Line Item No.		C-3008 Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
	<b>ASSETS</b>		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$	\$
114	Cash-tenant security deposits	<u>17,196</u>	
100	Total cash	<u>17,196</u>	
	Receivables:		
126	A/R-tenants-dwelling rents	<u>9,708</u>	
120	Total receivables, net of allowance for doubtful accounts	<u>9,708</u>	
131	Investments-unrestricted	<u>51,719</u>	
	Other Current Assets:		
142	Prepaid expenses and other assets	17,635	
143	Inventories	2,475	
144	Interprogram due from		
	Total other current assets	<u>20,110</u>	
150	Total current assets	<u>98,733</u>	
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	88,873	
162	Buildings	2,597,625	
163	Furn, equip & mach-dwellings	43,465	
164	Furn, equip & mach-admin.	118,001	
166	Accumulated depreciation	<u>(1,581,442)</u>	
160	Total fixed assets, net of accumulated depreciation	<u>1,266,522</u>	
180	Total noncurrent assets	<u>1,266,522</u>	
190	Total Assets	<u>\$ 1,365,255</u>	<u>\$</u>

Housing Choice Vouchers 14.871	Totals
\$ 78,799	\$ 78,799
	17,196
78,799	95,995
	9,708
	9,708
	51,719
	17,635
	2,475
2,258	2,258
2,258	22,368
81,057	179,790
	88,873
	2,597,625
	43,465
22,678	140,679
( 22,678)	( 1,604,120)
	1,266,522
	1,266,522
\$ 81,057	\$ 1,446,312

GRAYLING HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended March 31, 2007  
 =====

FDS Line Item No.		C-3008 Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
<b>LIABILITIES and NET ASSETS</b>			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 22,254	\$
321	Accrued wage/payroll taxes payable	25,920	
322	Accrued compensated absences-current portion	6,167	
333	Accounts payable-other government	16,450	
341	Tenant security deposits	17,196	
342	Deferred revenues	1,099	
346	Accrued liabilities-other		
347	Interprogram due to	<u>2,258</u>	
310	Total current liabilities	91,344	
	Noncurrent Liabilities:		
354	Accrued compensated absences	<u>55,503</u>	
300	Total liabilities	<u>146,847</u>	
	Net Assets:		
508.1	Invested in capital assets	<u>1,266,522</u>	
508	Total invested in capital assets	1,266,522	
512.1	Unrestricted net assets	<u>( 48,114)</u>	
513	Total Net Assets	<u>1,218,408</u>	
600	Total Liabilities and Net Assets	<u>\$ 1,365,255</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$ 22,254
	25,920
	6,167
	16,450
	17,196
	1,099
2,053	2,053
<u>2,053</u>	<u>2,258</u>
2,053	93,397
<u>2,053</u>	<u>55,503</u>
<u>2,053</u>	<u>148,900</u>
<u>2,053</u>	<u>1,266,522</u>
	1,266,522
<u>79,004</u>	<u>30,890</u>
<u>79,004</u>	<u>1,297,412</u>
<u>\$ 81,057</u>	<u>\$ 1,446,312</u>

GRAYLING HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
Year Ended March 31, 2007  
=====

FDS Line Item No.		C-3008 Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
	<b>Revenue:</b>		
703	Net tenant rental revenue	\$ 250,511	\$
704	Tenant revenue-other	<u>595</u>	
705	Total tenant revenue	251,106	
706	HUD PHA grants	106,497	102,116
711	Investment income-unrestricted	1,912	
715	Other income	<u>28,566</u>	
700	Total revenue	<u>388,081</u>	<u>102,116</u>
	<b>Expenses:</b>		
	Administrative:		
911	Administrative salaries	130,461	
912	Auditing fees	5,000	
914	Compensated absences	( 19,002)	
915	Employee benefit contributions-adm.	69,784	
916	Other operating-administrative	23,357	
	Utilities:		
931	Water	14,952	
932	Electricity	25,819	
933	Gas	69,148	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	42,470	
942	Ordinary maint & oper-mat'ls & other	26,574	
943	Ordinary maint & oper-contract costs	20,541	
945	Employee benefit contributions	22,546	
	General expenses:		
961	Insurance premiums	25,797	
963	Payments in lieu of taxes	<u>16,450</u>	
969	Total operating expenses	<u>473,897</u>	
970	Excess operating revenue over operating expenses	<u>( 85,816)</u>	<u>102,116</u>



Housing Choice Vouchers 14.871	Totals
\$	\$ 250,511
	595
	251,106
465,794	674,407
	1,912
	28,566
465,794	955,991
77,245	207,706
	5,000
	( 19,002)
13,958	83,742
7,013	30,370
	14,952
	25,819
	69,148
	42,470
	26,574
	20,541
	22,546
	25,797
	16,450
98,216	572,113
367,578	383,878

GRAYLING HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended March 31, 2007  
 =====

FDS Line Item No.		C-3008 Low Rent Program <u>14.850a</u>	Capital Fund Program <u>14.872</u>
	<b>Expenses continued:</b>		
	Other expenses:		
973	Housing assistance payments		
974	Depreciation expense	<u>93,871</u>	<u>          </u>
	Total other expenses	<u>93,871</u>	<u>          </u>
900	Total expenses	<u>567,768</u>	<u>          </u>
	<b>Other Financing Sources (Uses) :</b>		
1001	Operating transfers in(out)	<u>102,116</u>	<u>(102,116)</u>
1000	Excess (deficiency) of operating revenue over(under) expenses	( 77,571)	
1103	Beginning Net Assets	1,057,761	238,224
1104	Prior period adjustments, equity transfers and correction of errors	<u>238,218</u>	<u>(238,224)</u>
	Ending Net Assets	<u>\$ 1,218,408</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
361,201	361,201
	<u>93,871</u>
<u>361,201</u>	<u>455,072</u>
<u>459,417</u>	<u>1,027,185</u>
6,377	( 71,194)
72,627	1,368,612
	( 6)
<u>\$ 79,004</u>	<u>\$ 1,297,412</u>

**Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards**

Board of Housing Commissioners  
Grayling Housing Commission  
Grayling, Michigan

I have audited the financial statements of the business-type activities of Grayling Housing Commission, Michigan, (Housing Commission) as of and for the year ended March 31, 2007, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated November 9, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards*  
Grayling Housing Commission  
Page Two

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Bonny E. Landolt, CPA, PC*

November 2, 2007

**Report on Compliance with Requirements  
Applicable To Each Major Program and  
Internal Control over Compliance  
in Accordance with OMB Circular A-133**

Board of Housing Commissioners  
Grayling Housing Commission  
Grayling, Michigan

**Compliance**

I have audited the compliance of Grayling Housing Commission, Michigan, (Housing Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2007. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

Report on Compliance with Requirements  
Applicable to Each Major Program and  
Internal Control Over Compliance in  
Accordance with OMB Circular A-133  
Grayling Housing Commission  
Page Two

**Compliance (continued)**

As described in items 07-2 and 07-3 in the accompanying schedule of findings and questioned costs, the Housing Commission, did not comply with requirements regarding eligibility, reporting, and special tests & provisions that are applicable, in our opinion, for the Housing Commission, to comply with requirements applicable to the Housing Choice Voucher program.

In my opinion, except for the noncompliance described in the preceding paragraph, the Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2007.

**Internal Control Over Compliance**

The management of the Housing Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect the Housing Commission's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 07-2 and 07-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all

Report on Compliance with Requirements  
Applicable to Each Major Program and  
Internal Control Over Compliance in  
Accordance with OMB Circular A-133  
Grayling Housing Commission  
Page Three

**Internal Control Over Compliance (continued)**

matters in the internal control that might be reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I consider items 07-2 and 07-3 to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Sam E. Standish, CPA*

November 2, 2007



GRAYLING HOUSING COMMISSION  
**STATUS OF PRIOR AUDIT FINDINGS**  
March 31, 2007

=====

The prior audit report for the year ended March 31, 2007 contained no audit findings.

GRAYLING HOUSING COMMISSION  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 March 31, 2007  
 =====

**SECTION I - SUMMARY OF AUDITOR RESULTS**

Financial Statement:

Type of Auditor's Report issued: Unqualified

Internal control over financial reporting:

- \* Material weakness(es) identified? No
- \* Reportable condition(s) identified that are not considered to be a material weaknesses? None reported

Noncompliance material to financial statements noted? No

Is a "going concern" explanatory paragraph included in the audit report? No

Federal Awards:

Internal control over major programs:

- \* Material weakness(es) identified? Yes
- \* Reportable condition(s) that are not considered to be material weaknesses? No

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? No

Identification of major programs:

<u>CFDA</u> <u>Number</u>	<u>Federal Program</u>	<u>Amount</u> <u>Expended</u>	<u>Major</u> <u>Program</u>	<u>Compliance</u> <u>Requirement</u>	<u>Questioned</u> <u>Costs</u>	<u>Audit</u> <u>Finding</u>
14.850a	Low Rent Public Housing	\$106,497	No	E, L, N	N/A	07-1, 3
14.872	Capital Fund Program	102,116	No	O	N/A	N/A
14.871	Voucher Program	465,794	Yes	E, L, N	N/A	07-2, 3

The threshold for distinguishing Types A and B programs was \$300,000.

The Housing Commission was determined to be a low-risk auditee.

GRAYLING HOUSING COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
March 31, 2007  
=====

**SECTION II - FINANCIAL STATEMENT FINDINGS**

None

**SECTION III - FEDERAL AWARD FINDINGS**

Low Rent Program - CFDA No. 14.850a

**Finding Item 07-1: Year Ended March 31, 2007**

*Condition and Criteria:* Required and recommended documentation is missing, incorrect, or incomplete in the tenant files.

*Effect:* It is difficult to determine if the tenants are eligible for the program or if the program is being run correctly without proper and complete documentation.

*Cause:* The staff in charge of this program did not obtain 100% of the correctly completed documentation.

*Population and Items Tested:* We selected the fourth tenant file and selected every seventeenth one after that, with the exception of one file which was reviewed last year and skipped. A total of three tenant files were selected from a Grayling Housing Commission phone listing of tenants to test.

We found the following errors in the documentation in the tenant files:

	<u># of Exceptions</u>
1. Form HUD-50058 not in the tenant file	0
2. Privacy Act Notice for fiscal year not in tenant file or incorrect	1
3. Incorrect Verification of Income	1
4. Incorrect Verification of Expenses	1
5. Incorrect Verification of Assets	1
6. Inspection Report for fiscal year is missing or incorrect	2
7. Lease missing or incorrect	0
8. Application missing or incorrect	0
9. Copy of Photo I.D. missing	2
10. Copy of Proof of Social Security Number Verification missing	0
11. Copy of Birth Certificate missing	0
13. Flat Rent/Income Based Rent Choice missing or incorrect	3
14. Notice of Rent Adjustment missing or incorrect	0
15. Criminal Background Check not done, not documented, or it was in the file	1
16. Declaration of 214 Status missing or incorrect	2
12. Worksheet for HUD-50058 missing or incorrect	0

GRAYLING HOUSING COMMISSION  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
 March 31, 2007

**SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)**

LOW Rent Program - CFDA No. 14.850a

**Finding Item 07-1 (continued):** Year Ended March 31, 2007

*Population and Items Tested (continued):*

	<u># of Exceptions</u>
17. Check for Previous Eviction from Public Housing not done or incorrect	0
18. Annual Family Composition Review missing or incorrect	1
19. Annual Review missing or incorrect	<u>0</u>
Total	<u>15</u>

Out of a possible 57, there were 15 exceptions from this test. This represents an exception rate of 26.32%.

*Auditor's Recommendation:* It is recommended that the Housing Commission document **family composition** for all tenants. The documentation of family composition must be done annually. The tenants should choose between **flat rent and income based rent** annually and in writing. Annual **inspections** should be performed on all units and proper documentation placed in the file (note that the inspection process has improved over last year and all units will be inspected and documented in the file). **Criminal background checks** should be performed on all new applicants. Properly completed **214 declaration forms** should be obtained for all household members. Finally, properly completed **9886 Privacy Act forms** should be obtained for all of the adult tenants annually.

The following is a short summary of exceptions:

<u>File</u>	<u>Client Number</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>
1	4			x		x			x	
2	21			x					x	
3	55	x							x	
Number of Hits		<u>1</u>	<u>0</u>	<u>2</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>3</u>	<u>0</u>
Percentage of Hits		<u>34%</u>	<u>0%</u>	<u>67%</u>	<u>0%</u>	<u>34%</u>	<u>0%</u>	<u>0%</u>	<u>100%</u>	<u>0%</u>

GRAYLING HOUSING COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
March 31, 2007  
=====

**SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)**

Low Rent Program - CFDA No. 14.850a

**Finding Item 07-1 (continued):**

**LEGEND**

1. No proper evidence that a criminal background check was conducted or it was in the tenant files. It may not be kept in the tenant files unless an appeal or hearing is pending.
2. Check for eviction from federal housing not conducted.
3. Proper Income/Expense/Asset verification not conducted or it was incorrect.
4. Form HUD-50058 could not be located in the tenant files.
5. HUD-Form 9886, Release of Information/Privacy Act Notice not in the file or it was not properly completed for the fiscal year reviewed.
6. Social Security Number not verified with required documentation.
7. The Housing Commission could not locate the tenant file.
8. The Housing Commission could not locate missing documents.
9. The tenant was not eligible to participate in the program.

GRAYLING HOUSING COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
March 31, 2007  
=====

**SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)**

Housing Choice Voucher Program - CFDA No. 14.871

**Finding Item 07-2: Year Ended March 31, 2007**

*Condition and Criteria:* Required and recommended documentation is missing, incorrect, or incomplete in the tenant files.

*Effect:* It is difficult to determine if the tenants are eligible for the Voucher or if the program is being run correctly without proper and complete documentation.

*Cause:* The staff in charge of this program did not obtain 100% of the correctly completed documentation.

*Population and Items Tested:* We started with the second file and selected every eighteenth one after that until a total of seven files were selected to be tested from an Ad-hoc Tenant Report provided by the Housing Commission. We selected seven tenant files to test from a population of 128 tenant files to select from.

We looked for the following documentation in the files:

	<u># of Exceptions</u>
1. Form HUD-50058	0
2. Privacy Act Notice	0
3. Proper Verification of Income	1
4. Proper Verification of Expenses	7
5. Proper Verification of Assets	4
6. Inspection Report	0
7. Lease	0
8. Application	0
9. Copy of Photo I.D.	1
10. Copy of Proof of Social Security Number Verification	1
11. Copy of Birth Certificate	1
12. Annual Review	0
13. Worksheet for HUD-50058	0
14. Notice of Rent Adjustment	0
15. Criminal Background Check	2
16. Declaration of 214 Status	2
17. Lead Based Paint Disclosure	0
18. Check for Previous Eviction from Public Housing	2
19. Request for Tenancy Approval	0
20. Voucher	0
21. HAP Contract	0
22. HAP Tenancy Addendum	2
23. Rent Reasonableness Test	0

GRAYLING HOUSING COMMISSION  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
 March 31, 2007  
 =====

**SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)**

Housing Choice Voucher Program - CFDA No. 14.871

**Finding Item 07-2 (continued):** Year Ended March 31, 2007

	<u># of Exceptions</u>
24. Inspection-Life Threatening Corrections made <24 hours	0
25. Inspection-NonLife Threatening Corrections made <30 days or by extension	0
26. Proper action taken if(24) or (25) was violated	0
27. Annual Family composition Review	4
28. Proof of Ownership	<u>0</u>
Total	<u><u>27</u></u>

Out of a possible 196, there were 27 exceptions from this test. This represents an exception rate of 13.77%

The following is a short summary of exceptions:

<u>File</u>	<u>Client Number</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>
1	000084			X						
2	000120		X	X						
3	000054			X					X	
4	000130		X	X			X		X	
5	000047	X		X						
6	000083	X		X						
7	000060			X						
		<u>2</u>	<u>2</u>	<u>7</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>2</u>	<u>0</u>
Number of Hits		<u>29%</u>	<u>29%</u>	<u>100%</u>	<u>0%</u>	<u>0%</u>	<u>14%</u>	<u>0%</u>	<u>29%</u>	<u>0%</u>

GRAYLING HOUSING COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
March 31, 2007  
=====

SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)

Housing Choice Voucher Program - CFDA No. 14.871

**Finding Item 07-2 (continued):** Year Ended March 31, 2007

LEGEND

1. No proper evidence that a criminal background check was conducted or it was in the tenant files. It may not be kept in the tenant files unless an appeal or hearing is pending.
2. Check for eviction from federal housing not conducted.
3. Proper Income/Expense/Asset verification not conducted or it was incorrect.
4. Form HUD-50058 could not be located in the tenant files.
5. HUD-Form 9886, Release of Information/Privacy Act Notice not in the file or it was not properly completed for the fiscal year reviewed.
6. Social Security Number not verified with required documentation.
7. The Housing Commission could not locate the tenant file.
8. The Housing Commission could not locate missing documents.
9. The tenant was not eligible to participate in the program.

*Auditor's Recommendation:* It is recommended that the Housing Commission obtain documentation on **family composition, expenses, and assets** for all tenants. It is recommended that the staff perform a **rent reasonableness test** when there is an increase in rent, for the initial leasing, and if there is a drop of five percent in Fair Market Rents as required by 24 CFR 982.507. It is recommended that the Housing Commission improve the documentation process by placing a copy of the appropriate **waiting list** in the new admission's tenant file when they come into the program. If they are not at the top of the waiting list at the time of admission, there should be adequate documentation for anyone above them on the waiting list as to why they were skipped.



GRAYLING HOUSING COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
March 31, 2007  
=====

**SECTION III - FEDERAL AWARD FINDINGS (CONTINUED)**

Housing Choice Voucher Program - CFDA No. 14.871 and Low Rent Program  
- CFDA No. 14.850a

**Finding Item 07-3:** Year Ended March 31, 2007

*Condition and Criteria:* The Executive Director stated some concerns with regards to file storage.

*Effect:* Tenants and former tenants right to privacy may have been violated and there is an increased chance that their identity may be stolen.

*Cause:* The storage area for the files may not be secure. In addition, the staff members in charge of the files in storage, did not make sure that they were locked. Upon our physical inspection, we saw one file cabinet that was unlocked and the staff was unable to lock the file cabinet. In addition, several of the remaining file cabinets were secured with very small locks that could be easily defeated.

*Auditor's Recommendation:* It is recommended that the staff eliminate the other organization's access to the file storage area. In addition, it is recommended that the locks on the file cabinets be improved and operable.

GRAYLING HOUSING COMMISSION  
**ADJUSTING JOURNAL ENTRIES**  
 March 31, 2007  
 =====

Electronic  
 Submission  
Line Item #

	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
	(1)		
114	Cash-tenant security deposits	\$ 17,196	
111	Cash-unrestricted		\$ 16,546
131	Investments-unrestricted		650